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Research Priorities

Transforming POST-COMMUNIST POLITICAL ECONOMIES

Joan M. Nelson, Charles Tilly, and Lee Walker, *Editors*

Task Force on Economies in Transition

Commission on Behavioral and Social Sciences and Education

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Joan Nelson and Charles Tilly, *Cochairs*
Task Force on Economies in Transition

Contents

Introduction	1
Understanding Economic Change <i>Douglass C. North</i>	11
Research Priorities for Post-Communist Economies <i>Task Force on Economies in Transition</i>	17

The contents of the entire report, from which these sections are extracted, are listed below

Introduction	1
I Overview	11
Understanding Economic Change <i>Douglass C. North</i>	13
II Institutional Change, Property Rights, and Corruption	19
Underground Activity and Institutional Change: Productive, Protective, and Predatory Behavior in Transition Economies <i>Edgar L. Feige</i>	21
1 Property Rights in Transition Economies: A Commentary on What Economists Know <i>Alexandra Benham and Lee Benham</i>	35

2	Rethinking the Theory of Economic Policy: Some Implications of the New Institutionalism <i>Thráinn Eggertsson</i>	61
3	Missed Markets: Implications for Economic Behavior and Institutional Change <i>Leonid Polishchuk</i>	80
4	Fuzzy Property: Rights, Power, and Identity in Transylvania's Decollectivization <i>Katherine Verdery</i>	102
5	Rule Evasion in Transitional Russia <i>James Leitzel</i>	118
III	Transforming Management, Labor, and Production	131
	Restructuring Production Without Market Infrastructure <i>Judith Thornton</i>	133
6	Learning in Networks: Enterprise Behavior in the Former Soviet Union and Contemporary Russia <i>Yevgeny Kuznetsov</i>	156
7	Formal Employment and Survival Strategies After Communism <i>Simon Johnson, Daniel Kaufman, and Oleg Ustenko</i>	177
8	Observations on the Speed of Transition in Russia: Prices and Entry <i>Daniel Berkowitz and David N. DeJong</i>	203
9	Social Policy and the Labor Market in Russia During Transition <i>Alastair McAuley</i>	223
IV	Social Trends, Household Behavior, and Social-Sector Policies	245
	Social Costs, Social-Sector Reforms, and Politics in Post-Communist Transformations <i>Joan M. Nelson</i>	247
10	Reform of the Welfare Sector in the Post-Communist Countries: A Normative Approach <i>János Kornai</i>	272
11	Social Policy Challenges and Dilemmas in Ex-Socialist Systems <i>Zsuzsa Ferge</i>	299

<i>CONTENTS</i>	<i>xi</i>
12 Health Reform in Russia and Central Asia <i>Jeni Klugman and George Schieber with Timothy Heleniak and Vivian Hon</i>	322
13 Vulnerable Populations in Central Europe <i>Barbara Boyle Torrey, Timothy M. Smeeding, and Debra Bailey</i>	351
14 Pension Reform in the Post-Communist Transition Economies <i>Louise Fox</i>	370
15 From Safety Nets to Social Policy: Lessons for the Transition Economies from the Developing Countries <i>Carol Graham</i>	385
V Transforming the Role of the State	401
Democracy, Social Change, and Economies in Transition <i>Charles Tilly</i>	403
16 The State in a Market Economy <i>Adam Przeworski</i>	411
17 The State as an Ensemble of Economic Actors: Some Inferences from China's Trajectory of Change <i>Andrew G. Walder</i>	432
18 Possible Future Directions for Economies in Transition <i>Anders Åslund</i>	453
VI Research Priorities for Post-Communist Economies	471
Research Priorities for Post-Communist Economies <i>Task Force on Economies in Transition</i>	473
Appendix: Further Reading	491
Index	497

Introduction

The dissolution of the Soviet empire in Central and Eastern Europe and the demise of the Soviet Union have created unprecedented opportunities for social, political, and economic change in Europe and Eurasia. Current reforms will alter fundamentally the way post-communist societies, political systems, and economies function and interact. More than 5 years into the process, what do we know about social change at this pace and scale? What do we not know that we should know? What should we be tracking and analyzing in order to improve our understanding of this unprecedented transformation?

In 1994, the Joint Economic Committee of the U.S. Congress, the U.S. Agency for International Development, and the Office of Research and Development of the Central Intelligence Agency brought a series of issues relating to the post-communist economic transition to the National Research Council (NRC) for investigation. In response, the NRC established a Task Force on Economies in Transition. The task force's main charge was to improve understanding of the economic transformation in Central and Eastern Europe and the New Independent States, and to determine what we know about the interdependent economic, political, and social processes currently taking place in the region. The NRC also asked the task force to develop a research agenda that would direct efforts and funding to those areas, issues, and methods most likely to improve understanding of the complex and interrelated socioeconomic processes encompassed by the terms "transition" and "transformation." This volume responds to that charge.

From its inception, the task force doubted that present versions of any existing theories—including various theories preferred by its own members—

could adequately encompass these extraordinarily complex processes and explain the very different rates and patterns of transformation across the post-communist world. Most established economic theory aims to explain marginal and incremental changes. It is therefore at best partial, and at worst misleading, in the context of sweeping, rapid changes in entire systems. Moreover, conventional theory assumes the existence of underlying formal and informal institutional arrangements that are radically different from those prevailing in many parts of Central and Eastern Europe and the New Independent States. Similar difficulties beset our explanations of political change: models that fit more or less adequately the representative systems of capitalist democracies leave unstated both the underlying institutional forms and conditions for drastic transformation.

At the outset of the transformation, these shortcomings of Western theory and knowledge were compounded by the widespread assumption that these societies would “naturally” evolve into systems closely approximating those of the industrialized West. These teleological and deterministic assumptions are not inherent in existing theories, but nonetheless have had a powerful influence on policy advice and action in the post-communist world. The ascendancy of neoliberal economic philosophy during the 1980s, both in the industrialized West and in poorer regions of the world, seemed vindicated by communism’s collapse in Central and Eastern Europe and the New Independent States. For a brief period, many observers and advocates believed that Western models of market economies and democratic polities were the wave of the future, and that the post-communist world was embarking down the same road to the same destination (though some countries were expected to move more rapidly than others). Moreover, many people thought that road was plainly marked: stabilization, liberalization, and privatization would transform highly bureaucratized, statist economic systems into dynamic, competitive capitalist economies. Similarly, contested elections, political parties, and decision making by representative assemblies would provide the path to democratic stability.

Experience during the 1990s has confirmed the crucial importance of certain (mainly macroeconomic) policies as necessary, though far from sufficient, underpinnings to resumed growth. But the failures and disappointments of initial efforts at transformation in parts of the post-communist world and the varied patterns and ongoing problems in even the most successful cases have led most thoughtful reformers and analysts to back away from single-track assumptions. There is now much greater recognition that different paths of transformation, and different destinations, are likely to be generated by different histories (before and during the communist era); the different ways in which communism collapsed; and contrasting geography, social structure, ethnic composition, and cultural values. Some of these destinations may look similar to one or another of the multiple models of mainly market economies

already established elsewhere in the world, while others may look quite different from any existing market or communist model. Some of each group may thrive while others prove unworkable.

The task force began its work roughly at the same time that the initial phases of the transformation process were yielding to later phases, with different goals and emphases, in much of Central Europe and the Baltic states. Initially, the overwhelming priorities were stabilization and liberalization—particularly the dismantling of old controls on prices, trade, and investment. As these measures took hold in Poland, the Czech Republic, Slovakia, Hungary, Slovenia, and the Baltic states, the attention of policymakers and advisors shifted to the much more diverse and complex tasks of creating new institutions and frameworks for effective governance and economic growth, while continuing to keep a watchful eye on macroeconomic management. Elsewhere in Eastern Europe, and in most of the New Independent States, the early phases of transformation, characterized by the struggle for stabilization, liberalization, and privatization, has taken longer and been much less decisive. In these areas, the challenges of designing institutional reforms and creating new regulatory and social-sector frameworks appropriate to mainly market economies will be more difficult, and will have to be tackled simultaneously with the yet-to-be-completed initial phase of transformation.

As more post-communist countries move into later phases of transformation, the policy guidance provided by neoliberal economics becomes more limited and partial. While there are criteria for restructuring financial sectors consistent with the requirements of market economies, there is no single template from which one can draw the precise outlines of any of the components of an economic system (including central banks, monetary policies, investment incentives, monitoring systems, and savings institutions) that will foster both well-being and economic growth. Still less is there a single formula, or even a great deal of technical agreement in the West, regarding how to design new pension or educational systems or the most appropriate labor market institutions. Indeed, many semi-industrial and industrial nations outside the post-communist world continue to grapple with similar issues. Far from being able to apply a well-understood model to achieve predictable outcomes, analysts and practitioners are groping at the frontiers of knowledge, seeking better insights and ways of grasping the complex, dynamic, and interacting processes of transformation.

In seeking to contribute to these efforts, the task force looked for innovative ways to determine what is occurring in these diverse systems, to unravel some of the unexpected consequences of policies, and to trace the strategies and networks different actors are using to cope with the uncertainties of transformation. The task force recognizes that many approaches are useful and that no single approach will be adequate in such a complex endeavor. It has, however, chosen to emphasize one approach in this volume—the analysis of

institutional change. It has done so for several reasons. First, task force members and those who participated in the workshops conducted for this study found this approach both thought-provoking and fruitful. Second, many of the papers included in this volume demonstrate the utility of the approach. Finally, this approach has been largely neglected to date in analyses of post-communist transformations. Rather than surveying all possible interpretations of current changes in post-communist economies, together with all possible objections to their major arguments, this volume aims to stimulate thought and discussion, identify crucial gaps in current knowledge, and motivate new research.

To address the challenges posed by its mandate, the task force:

- Commissioned a series of reports from specialists in East European and Eurasian social change and the processes of economic transformation, ranging from broad conceptual surveys to investigations of developments in specific sectors of particular countries.
- Organized a series of five workshops at which practitioners, analysts, and policymakers could debate those reports.
- Produced a set of critical syntheses of the results, including the essays that introduce each section in this volume and the overall framework essay by Douglass North.

Four different components of the task force's mandate should be distinguished: (1) setting goals, (2) identifying potentially useful conceptual approaches and methodologies, (3) explaining current changes, and (4) identifying research priorities. For all four components, the stakes are high, and sharp disagreements exist among analysts, policymakers, and citizens as to the best course of action.

With respect to goal setting, for example, most observers and participants would welcome the eventual establishment of productive, prosperous, self-sustaining economies and democratic regimes throughout the zone of former state socialism. Disagreement begins, however, with the extent to which such economies and regimes must imitate existing Western models; whether the pursuit of economic growth and democratization conflict in the short run; the extent to which the social services and rights established under state socialism should be preserved; the relations post-socialist economies should have with the evolving international capitalist system; and the extent to which even long-run goals should differ for, say, Uzbekistan and Estonia. Among our contributors, the variation in views with regard to these issues is striking. Some think the immediate adoption of Western economic models is both desirable and feasible. Others argue that the future economies and politics of post-communist regions will inevitably differ significantly from those of present-day Western, capitalist democracies. The analyses included

here help identify and probe these goal-setting issues, but do not attempt to resolve them.

As noted earlier, many of the chapters and essays included in this volume stress the value of institutional analysis for understanding economic transformation and social change in Central and Eastern Europe and the New Independent States. To recognize the significance of institutions is not to announce a list of precisely six (or six hundred) social arrangements that underlie functioning markets or market systems, but to see that all systems of production and exchange rest on organizations, routines, guarantees, relationships, and understandings that are not themselves obvious elements of production and exchange. It should be understood at the outset that the term *institution* is used differently here than in common parlance or, for example, in the field of political science. The institutional approach defines institutions as the indispensable framework within which human interaction takes place—as the “rules of the game,” the humanly devised constraints, that determine incentives and shape human interactions in all societies (North, 1990:3-4). Some institutions, such as laws, tax regimes, and the explicit operating rules of organizations, are formal, while others, such as cultural norms and established conventions, are informal. Formal rules are only a small subset of the constraints that govern choices and human interaction, while informal constraints and conventions are so pervasive that one is often misled into underestimating their role and importance. Institutions, both formal and informal, reduce uncertainty, structure incentives, define property rights, limit choices, and ultimately determine transaction costs (North, 1990).

Economic and political liberalization has dismantled a great many of the formal communist institutions—the laws, regulations, and organizations characteristic of the communist era. At the same time, however, informal institutions from the communist as well as the pre-communist past, including relationships, norms, and rules of behavior, persist in varying degrees and continue to shape expectations, incentives, and behavior. Moreover, new informal institutions are emerging alongside the new formal laws and organizations. While reformers and policy advisors are attempting to design and introduce new, formal institutions, it should be understood that these measures will confront and interact with remnants of old arrangements and spontaneously developing informal institutions (North, 1990). Conflicts and inconsistencies between formal and informal institutions can produce unanticipated consequences, including noncompliant behaviors and underground economic activities. No one has a formula for setting the optimum level of institutionalization, or even the certainty that a single such level exists. To the contrary, the task force wishes to emphasize the great diversity of institutions and institutional patterns that have existed, currently exist, and are emerging in the course of transformation.

Analyzing transformation in terms of institutional change alerts policy-

makers and scholars to the critical need for market infrastructure, without which markets can not form or function. It focuses attention on the necessity for secure property rights without which investors are unlikely to invest, and capitalists are unlikely to undertake the risks of entrepreneurship. It emphasizes how transaction costs—the costs associated with measuring, monitoring, protecting, and exchanging property rights—affect incentives for the production, trade, and use of goods and services. Finally, it highlights the importance of path dependence—the ways in which cultural norms and inherited ways of conducting business and governing societies structure a society's institutions, setting the parameters within which, and the stock of knowledge with which, change will occur.

The path dependence of economic, institutional, and political change means that major processes—such as monetization of exchanges, privatization of property, and integration into international markets—will operate differently in different socioeconomic systems as a function of previously existing social arrangements. Just as a skyscraper's lightning rod acts as a conduit for electrical discharges from storm clouds, established social, economic, and political connections and routines channel economic transformations. As a result, changes may sometimes proceed with unexpected rapidity, with an entrenched and previously clandestine second economy suddenly becoming a relatively unfettered legal vehicle of exchange. Changes may also move more slowly than reformers anticipate, encountering obstacles created by the old system. Path dependence governs the itinerary more than the speed of economic change.

Analysts concerned about institutional change and path dependence have no choice but to take concrete histories seriously. Starting with the synthesis provided in North's framework essay, many of the authors in this volume step back to examine the longer-term implications of the transformation taking place in underlying social and economic institutions. Most critically, they raise questions about which institutions are likely to impede, promote, or prove irrelevant to the emergence of productive economies and self-sustaining democracies. These inquiries examine changing property rights, transaction costs, power structures, household coping strategies, and interpersonal networks. They call attention to the paths and sequences by which institutional transformation actually occurs, with an eye to the likely perverse effects of attempts to install replicas of specific Western organizational forms where the necessary institutional contexts have yet to emerge.

Effective economic change depends on changes in formal noneconomic organizations, such as courts, schools, and hospitals. But it also depends on webs of understanding, expectation, and social relations that cut across formal organizations: norms of honest work and decent pay, networks of friends and relatives who pass on news of economic opportunities, devices for pooling capital, and much more. These arrangements constitute the informal and only

partially visible side of institutions underlying economic activity and change. They increase or decrease the likelihood that the performance of markets, investments, monetary flows, and producing firms in rapidly changing economies will be similar to that of their counterparts in long-established capitalist economies.

Authors in this volume display an acute awareness of institutional effects, both formal and informal. Rather than dismissing such pervasive and striking phenomena as official corruption, theft of government property, pyramid schemes, rising mortality, and mass emigration as obstacles or temporary misfortunes on the road to economic transformation, they seek to explain and trace the implications of ostensible setbacks, obstacles, and perverse effects. Such changes, properly understood, provide valuable signals concerning the extent to which post-communist economies and politics are actually behaving as conventional theories of market expansion and democratization would lead us to expect. Even more important, individuals' short-run responses to economic and political change depend heavily on their societies' inherited, and often entrenched, institutional arrangements. Their responses may be constrained or facilitated by patron-client networks, ethnic and religious solidarities, organized access to government resources, incentives for short-term profit taking rather than long-term investment, and social structures that facilitate the evasion of taxes. Therefore, actual behavior provides crucial information about institutional constraints on the array of possible choices and policies.

In each of the five workshops conducted for this study, the task force sought explicitly to integrate macroeconomic and microeconomic levels of economic analysis, while building bridges across the disciplinary divides between economics and the other social sciences and between Western and post-communist scholarship. Beginning at the base, the task force focused initially on transformation at the level of the individual household and the coping strategies employed by different actors to survive and surmount the challenges of change. Although the interrelationships between health and the stresses induced by socioeconomic change and uncertainty were discussed at the first workshop, papers addressing these issues were excluded from this volume in view of the fact that the NRC has just published a volume of papers on *Premature Death in the New Independent States*. Similarly, although the task force recognized the potential for ethnic and religious solidarities to influence the course of transformation, the NRC's recent work on *Balancing and Sharing Political Power in Multiethnic Societies* encouraged us to focus our attention elsewhere.

Progressing to increasingly complex levels of socioeconomic interaction, the task force examined the transformation of management, labor, and production; institutional change, property rights, and corruption; social trends, household behavior, and social-sector policies; and the transformation of the role of the state. The choice of topics was not intended to be exhaustive, but to direct

attention and research to key elements of transformation. This work plan also enabled the task force to highlight the complex interactions among processes that are frequently analyzed separately, or with other things being held artificially constant. For example, the opportunities for rent seeking created by privatization are integrally related to the criminalization and corruption of state structures. Similarly, while the appearance of extensive quasi-currencies in Russia and some other countries is a creative (though not necessarily constructive) response to the strains of transformation, it contributes to the alarming erosion of central government authority and revenues.

The task force's series of workshops provided opportunities for social scientists, policy analysts, legislators, and development specialists to confer, debate, and refine their preliminary understanding of critical aspects of the transformation process. This in turn enabled them to transfer insights gained at the workshops to contemporary policy issues without awaiting the publication of this volume.

The volume opens with both an introduction and a framework essay. This introduction explains the task force's mandate, outlines its program of work, and provides a brief guide to the materials included in the volume. North's essay outlines the broad contours of the new institutional economics, demonstrates the analytic utility of the approach, and applies it to the study of economies undergoing transformation. His essay is followed by four substantively based sections: II "Institutional Change, Property Rights, and Corruption;" III "Management, Labor and Production;" IV "Social Trends, Household Behavior, and Social-Sector Policies;" and V "The Changing Role of the State." The chapters in each section were initially presented at one of the task force workshops, where they were subjected to intense debate, and were subsequently revised for publication. Compelled to make its selection from an extraordinarily strong and diverse group of papers, the task force chose to include those papers which provided cross-national and comparative analysis, addressed major problems of explanation, provided new conceptual approaches, connected explanations with policies for intervention, and shed the most light on institutions and institutional change.

Just as the volume opens with a framework essay, each section opens with a task force essay. These essays not only set the context for the specific papers included in each section, but, more important, provide an opportunity for the task force to synthesize the insights gained over the course of the project and elaborate their own views concerning the processes of transformation.

In the final section of the volume, "Research Priorities for Post-Communist Economies," the task force raises a series of questions about the transformation. These questions include conventional issues such as how labor markets are forming and what is happening to capital accumulation, but they also emphasize:

- Analysis of evolving incentives and transaction costs in the course of institutional transformation.
- Careful monitoring and explanation of what might seem to be short-term disturbances.
- Singling out of responses—successful or otherwise—to deliberate policy interventions as privileged evidence concerning the causal processes operating in post-communist countries.
- Treatment of current changes as evidence about the plausibility of competing explanatory models.
- Identification and explanation of different change trajectories within the post-communist world.

In general, the research agenda outlined in the final section of this volume stands as a warning against the straightforward application of models based on a stylized description of the world's richest economies, the assumption that the expansion of markets and private property will suffice to move post-communist economies to prosperity, and the use of checklists to gauge the approximation of any particular economy or polity to an idealized portrait of capitalist democracies. It also calls for broader and more penetrating efforts to identify and model the political, ethnic, and economic forces channeling institutional changes, and to determine the effects of these changes on incentives, perceptions, and relationships. What sorts of institutions, for example, guarantee contracts, promote productive long-term investment, discourage rent seeking and capital flight, give priority to state-backed legal tender, and encourage tax compliance?

The processes currently unfolding in the post-communist world challenge our capacity to limit the human costs and promote the potential benefits of this unprecedented transformation. They also offer a unique opportunity to expand our limited grasp of the kinds of changes that underlie economic restructuring and development more generally. Both the challenge and the opportunity demand broader and more flexible conceptual approaches than those which have dominated to date. This volume provides examples of such approaches, and marshals a formidable range of unanswered—and for the most part previously unexamined—questions for a larger and more probing program of research.

REFERENCE

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Understanding Economic Change

Douglass C. North

There are some fundamental characteristics of successful economic development that are common to economies everywhere. There is, however, no universal pattern for achieving these results. While we do have some idea of what has led to successful development in the past, we have very imperfect knowledge about how to achieve such results in the present. Awareness of the current limits to our knowledge is a prerequisite to understanding the problems involved in improving the performance of economies in transition from state socialism.

Economic growth results when the output of an economy grows because more land, labor, capital, and entrepreneurial talent are devoted to the production process and/or because the productivity of these factors of production rises. Growing markets, technological improvements, and additional investment in human beings (human capital) all have played a part in increasing productivity. While the new literature on growth economics has formalized some of these findings, they have been broadly understood for some time by economic historians, development economists, and specialists in growth accounting. But how do we explain the continuation of poverty in much of the world if the sources of growth are known? The answer is to be found in the failure of humans to organize themselves to undertake the improvements that would result in increasing output. The institutional framework of a society provides the incentive structure that directs economic (and political) activity. We do know a good deal about the institutional foundations of successful economic growth. A number of recent empirical studies have made clear the importance of the institutional matrix. Stable political structures, well-speci-

fied and enforced property rights, and low-cost enforcement of contracts (typically through the rule of law) have resulted in the low transaction costs underlying the success of the developed economies. Throughout history, humans have all too often failed to provide the institutional framework necessary for productive activity.

Until we understand more than we currently do about the process of economic change, we are fundamentally hampered in improving economic performance. The theory from which we start is static and frictionless—critical limitations to our understanding of the process. Moreover, path dependence matters, and we are still unclear about exactly what it is that makes the path we have trod such a critical factor in constraining present and future choices. However, the discussion that follows provides a loose structure designed to be an aid in thinking about the issues involved in this process.

An economy can be characterized by innumerable statistics on its demographic, economic, technological, and institutional features, but what we really need to know is the interplay among all these features that makes it work. The foundations of that interplay are three: the demography, which describes the quantity and quality of human beings; the stock of knowledge the society possesses, which determines the human command over nature; and the institutional framework, which determines the rules of the game. The demographic characteristics include not only fertility, mortality, and migration characteristics and labor force composition, but also the stock of human capital (derived from the stock of knowledge). The stock of knowledge includes not only the scientific knowledge a society possesses, its distribution in the society, and its application to solving problems of scarcity, but also the beliefs the society holds that influence the choices made. That stock of knowledge determines the potential upper bound of the well-being of the society. The institutional framework determines the incentive structure of the society. It is the interplay among these three that shapes the features of the economy. We know very little about this interaction, although we do have some limited hypotheses about certain of its aspects. But self-conscious modeling of this interaction at a moment in time, much less over time, has not been part of the agenda of economists, development economists, or economic historians.

Yet we do construct in our minds a synthetic framework designed to explain how the economy works. This framework is derived in part from the culturally determined belief systems we possess and in part from the available evidence. The structure is both a positive model of the way we perceive the economy and a normative model of the way the economy should work. The model is always a very imperfect reflection of how the economy really works. In some cases the defects are fatal, as in the case of the communist models that disintegrated in 1989. From this (typically implicit) model, we, or those political and economic entrepreneurs who are in the position to make choices that shape micro- and macroeconomic performance, erect an elaborate struc-

ture of rules, norms, conventions, and beliefs embodied in constitutions, property rights, and informal constraints that in turn shape economic performance. This "scaffolding" not only constrains the choice set at a moment of time, but also is the source of path dependence. When political or economic entrepreneurs seek to alter some aspect of economic performance, they make choices that are limited not only by the standard constraints of technology and income, but also by this scaffolding. The intention is to alter economic performance in a particular direction. The aggregate of such policies is continually altering the way the economy works. In turn that leads to gradual alterations of the models we devise in a never-ending process of economic change. I should complicate this all too brief account by pointing out that nonhuman forces, such as climate change in history, also influence the performance.

Throughout history, humans have typically gotten it (at least partly) wrong in (1) their understanding of the way the economy works, (2) the synthetic frameworks they construct, or (3) the policies they enact (at best blunt instruments to serve their purposes), producing unanticipated consequences. We may write economic history as a great success story of an enormous increase in material well-being, which has reflected the secular growth in the stock of knowledge. But it is also a vast panorama of decisions that have produced death, famine, starvation, defeat in warfare, economic decline and stagnation, and indeed the total disappearance of civilizations. And even the decisions made in the success stories have typically been an admixture of luck plus shrewd judgments and unanticipated outcomes. Take American economic history as an example. From the earliest attempts at settlement, through the colonial era, to the perceptions leading to the Revolutionary War, the colonists had it, at best, half right. The Constitution, surely a classic of shrewd judgment, was aided by chance (the events of the 1780s), luck (the boycott of the convention by the antifederalists), and unanticipated decisions (the development of the independent judiciary and the Marshall court).

I wish to emphasize the limits to our understanding because there is a certain amount of hubris evident in the annual surveys by the World Bank and in the writing of orthodox economists who think we now have it right. It is important for us to understand that even if we do have it right for one economy, it will not necessarily be right for another, and that even if we have it right today, it will not necessarily be right tomorrow. I am not suggesting that we have failed to learn a good deal about determinants of economic performance. I began this essay by asserting that we have. But the implication of my brief survey is that in the sequence from our understanding of an economy, to the scaffolds we erect, to the policies we then enact to alter economic performance, there are innumerable junctures where we can and do get it wrong. Let me focus on three such junctures that are central to the issues of improving the performance of transition economies: the "scaffolds" we erect, the policies we enact, and time.

It is the scaffolds we erect that make path dependence so important. They consist of the political structure that specifies the way we develop and aggregate political choices; the property rights structure that defines the formal incentives in the economy; and the informal constraints of norms, conventions, and internally held beliefs. They have evolved over many generations, reflecting, as Hayek (1960) has reminded us, the trial-and-error process that has sorted out those behavioral patterns that have worked from those that have failed. Because the experience of every society has been unique, the scaffolds erected will differ for each economy. They constrain the choice set not only because the organizations of the economy have been built on the foundations of that institutional structure, so that their survival depends on its continuance, but also, and perhaps more fundamentally, because the belief system that is a complementary part of that scaffolding tends to change very slowly. Not only is the scaffolding what makes path dependence so important, but it is equally the explanation for the difficulties involved in reconstruction when much of the scaffold crumbles, as happened in 1989 in Eastern Europe.

The second critical juncture is the policies we enact to alter the performance of an economy. Even when we have a “correct” understanding of the economy and a (more or less) “correct” theory about its operation, the policies at our disposal are very blunt instruments. They consist of alterations in the formal rules only, when in fact the performance of an economy is an admixture of the formal rules, the informal norms, and their enforcement characteristics. Changing merely the formal rules will produce the desired results only when the informal norms are complementary to that rule change, and enforcement is either perfect or at least consistent with the expectations of those altering the rules.

Finally, time is important because change is a process in time, not a once-and-for-all occurrence as we are accustomed to thinking in static theory. Not only are the economies themselves continually changing, but also the policies we enact will have downstream consequences through time that must be taken into account. Specifically, a policy will typically affect the distribution of income, and those adversely affected, if they have access to the political process, may act to negate or alter the policy. In the extreme, the policy may produce a violent reaction. While nothing as elegant as a formal dynamic theory is even on the horizon, recognizing that policy enactment is a process in time is the beginning of the political economy we seek.

The implication of the foregoing analysis is that path dependence can and will produce a wide variety of patterns of development, depending on the cultural heritage and specific historical experience of the economy. Indeed, the success in China of TVEs (town, village enterprises)—a form of organization that is neither a firm nor a cooperative and does not fit our preconceptions about successful institutional/organizational structures—has been a sobering

reminder of how much we still have to learn about the process. A description of that process in China from the enactment of the household responsibility system traces a unique path that has produced (so far) rapid economic growth. I would hope that this essay would put to rest any simplistic general nostras such as "big bang" or "shock therapy" theories about magically overcoming a lack of development.

If path dependence can help us understand the variety of development patterns, it also speaks forcefully to the constraints that the "scaffolds" erected in an economy impose on institutional change. The historically derived constraints are supported not only by the existing organizations that will oppose change, but also by the belief system that has evolved to produce those constraints. The rate and direction of change will be determined by the "strength" of the existing organizations and belief system.

The demise of communism in Eastern Europe in 1989 reflected a collapse of the existing belief system and a consequent weakening of the supporting organizations. Policymakers were confronted not only with the restructuring of an entire society, but also with the blunt instrument that is inherent in policy changes that can only alter the formal rules, but not the accompanying norms. And even policymakers have had only limited success in inducing enforcement of policies. The relative success of policy measures (such as the auctioning of state assets and the reestablishment of a legal system) in the Czech Republic as compared with Russia resulted from the heritage of informal norms that made for the relatively harmonious establishment of the new rules.

In addition, we know all too little about political economy. One of the shortcomings of research is a lack of attention to the polity and the problem of aggregating choices through the political system. We simply have no good models of politics in Third World, transition, or other economies. The interface between economics and politics is still in a primitive state in our theories, but its development is essential if we are to implement policies consistent with intentions.

Let me conclude by talking about time. If one accepts the crude schematic outline of the process of change set forth above, it is clear that change is an ongoing, continuous affair, and that our institutional prescriptions typically reflect learning from past experience. But there is no guarantee that past experiences are going to equip us to solve new problems. Indeed, an historic dilemma of fundamental importance has been the difficulties of shifting from a political economy based on personal exchange to one based on impersonal exchange. An equally wrenching change can be the movement from a "command" economy to a market economy. In both cases, the necessary institutional restructuring—both economic and political—has been a major obstacle to development, and it is still the major obstacle for Third World and transition economies. The difficulty comes from the fact that the belief system that has

evolved as a result of the cumulative past experiences of the society has not equipped its members to confront and solve the problems. Path dependence, again, is a major factor.

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Research Priorities for Post-Communist Economies

Task Force on Economies in Transition

INTRODUCTION

Ends of empires tempt observers and participants into teleological explanations. In retrospect, the previously unpredictable becomes inevitable. A similar determinism is characteristic of thinking about the future of the post-communist successor states: it is widely presumed that their political and economic systems will evolve into close approximations of those of the most powerful members of the existing state system. Characteristically, there were many for whom Central and Eastern Europe and the New Independent States seemed to constitute a slate on which, once rubbed clean, leaders and planners could draw the designs they preferred. Now, after years of effort, conflict, change, and scrutiny, both the legacies of state socialism and the requirements of vigorous, viable alternative political-economic systems look much more formidable. This section proposes a program of research into the factors shaping the transformation of the post-communist world.

The U.S. government has an interest in promoting prosperity, democracy, and stability in Eurasia. In company with other Western governments, international agencies, and reformers in Central and Eastern Europe and the New Independent States, it focused its early analyses and interventions on ways to liberalize and stabilize command economies. Much less effort went into mapping either their likely future topographies or the paths that would take them there. As time has passed, however, those tasks have become more urgent. With respect to transformation—political, economic, and social—what is actually happening, and why? What might come next?

By the time the task force went to work, it was becoming clear that the widely varying historical heritages of the Central and Eastern European and post-Soviet states were causing large differences in their paces and directions of change. All had experienced state planning and communist rule, but to vastly different degrees over different time spans. Both before and during communist rule, their involvement with the capitalist West varied enormously, from relatively close in Czechoslovakia and Estonia to quite distant in Bulgaria and Tajikistan. The reactions of their peoples to the end of communist regimes and of Soviet domination ranged widely, as did ideas concerning desirable directions for change. Economic development, resources, ethnic composition, and geography posed differing opportunities and constraints. The international economy itself impinged in contrasting ways on successor states as different as Hungary and Uzbekistan.

When the task force began its work, both positive experiences (mainly in Central Europe and the Baltic states) and negative experiences (for example, in Bulgaria and Ukraine) had already confirmed the crucial role of stabilization measures and substantial liberalization of prices, markets, and new business entries—measures on which international financial and economic circles tend to agree. It was also becoming clear that these necessary measures were far from sufficient to transform command economies into stable, wealth-generating socioeconomic systems. Restarting and sustaining economic growth, mitigating poverty, and reshaping social organizations in ways that would be accepted by different national and ethnic populations required a much broader range of changes.

On such questions as how to liberalize labor markets and restructure industrial relations, competing models have their partisans, but experience with both post-communist and other economic regimes demonstrates that similar policies can produce quite different outcomes in different contexts. The dominant models of Western economics have important contributions to offer, especially as baselines for gauging what sorts of changes are actually occurring in Central and Eastern Europe and the New Independent States. But they can offer only limited guidance as post-communist countries move beyond stabilization and liberalization to rebuild sectoral institutions.

These conditions challenged the task force to seek more penetrating and provocative analytical frameworks, better documentation and explanation of current changes, more accurate identification of potential risks, and more nuanced guidance for policy interventions than were currently available. To this end, Sections II through V examine what has been taking place in post-communist economies and why, whereas this section elucidates priorities for further research. The research agenda presented here has three goals: (1) to direct researchers to the topics, issues, and processes most deserving of attention and analysis; (2) to encourage the elaboration and application of new approaches and methodologies, as well as the utilization of methods and tools

developed in related social sciences, to the study of economies undergoing transformation; and (3) to focus the attention of U.S. government agencies and the funding community at large on priority areas for support.

In seeking potentially fruitful conceptual approaches and methodologies to improve understanding of the processes of transformation, the task force became convinced that approaches that treat these processes as narrowly economic are less useful than those which cross intellectual and disciplinary boundaries and apply concepts and methods from related social sciences, such as political science, sociology, and anthropology. Surveys that focus on short-run changes in prices, incomes, or the structure of ownership without grounding these phenomena in a larger sociopolitical context provide only limited insights and information concerning transformation—whatever the extent of its penetration or its likely trajectory. Similarly, we found case studies focused on developments in a single region or country less useful than cross-regional and cross-national studies. Only comparative studies—both those that remain within the bounds of a single discipline and those that cross disciplinary boundaries—provide opportunities to identify the key variables and determinants channeling change and affecting transformation.

Moreover, the task force found a wide range of research methods and techniques useful in elucidating various aspects of transformation. Some of these methods are relatively novel in much of the post-communist world, while others are benefiting from increased rigor in their application. Examples include the use of focus groups, public opinion research, time budget surveys, and surveys of household income and expenditures. Other methods, such as in-depth anthropological and ethnographic observation of local communities, can also produce remarkable insights concerning the context within which transformation is taking place.

INSTITUTIONAL ANALYSIS

During 1995 and 1996 the task force held a series of five workshops on economic transformation. In analyzing the materials presented at these workshops and debating the hypotheses and conclusions advanced by the workshop participants, the task force began to focus on the new institutional economics as a singularly provocative and powerful conceptual tool. By this we did not mean to imply that other approaches are less valuable or insightful in analyzing a range of issues and topics; indeed, as suggested above, the task force views a variety of approaches as mutually reinforcing and amenable to cross-fertilization. The task force emphasizes the institutional change approach in this volume because we found it offered particular potential to improve understanding of economies undergoing transformation, as well as an appropriately broad and cohesive framework for analysis, and because this approach has been relatively neglected by those working in the field.

As discussed in the introduction to this volume, it should be noted that the new institutional economics uses the term *institution* in a way that differs substantially from its use in common parlance or in such disciplines as political science to include not only formal laws, operating rules, and organizations, but perhaps most saliently, the informal structures and norms that channel behavior.¹ According to this approach, institutions embody the “rules of the game” within which key actors (including individuals, households, ethnic groups, and enterprises) operate. When those rules change, the players face a different array of incentives and constraints. Their behavior is then shaped and channeled by the institutions that have changed, those that have not changed, and the tensions between the two. The task force concluded that research applying the institutional change perspective can enhance understanding of the transformation of the economies of Central and Eastern Europe and the New Independent States along a number of key dimensions.

First, an institutional change perspective illuminates a broad range of economic, social, and political processes. It brings together areas of inquiry from diverse fields in which specialists often proceed independently—sometimes too independently—of each other. It assists analysts in making connections among changes in national and international laws, norms, and structures; the responses of sectors, firms, households, ethnic groups, and communities; and the behavior of individuals. It also directs analysts to examine and identify the feedback mechanisms that link these levels of analysis.

For policymakers and their advisors, research applying an institutional change perspective can help explain why similar reform programs often produce markedly different outcomes in different settings. It can also help in specifying the incentives and structures that would facilitate institutional reforms.

Perhaps most critically, the institutional change perspective directs attention to evolving property rights and their enforcement. Secure property rights extend time horizons, promote investment, provide incentives for effort, encourage productive activity, and ensure the creation of wealth. Similarly, risk-reducing institutions, such as legal and organizational arrangements for limited liability and orderly bankruptcy, play crucial roles. The absence of secure property rights and related risk-reducing institutions favors shortened time horizons, disinvestment, speculation, rent seeking, crime, and corruption.

¹“Organizations” are more or less formal associations, such as government agencies, business firms, and citizens’ associations. Members of an organization pursue shared goals, and their interactions are governed by internal rules and structures. Organizations can usefully be viewed as collective actors whose behavior is shaped both by internal goals and rules and by the larger institutional context. “Structure” is a broader concept, encompassing not only organizations, but also other more or less enduring sets of relationships such as families, networks, and ethnic groups.

The institutional change perspective led the task force to highlight the distinction between economic activities that (1) promote the creation of new wealth, that is, are productive, and (2) simply redistribute existing wealth, that is, involve rent-seeking, predatory, and protective activities. Whereas productive activities involve the transformation of inputs into outputs, rent-seeking, predatory, and protective activities focus energies and effort on the appropriation, exchange, and control of already existing goods and assets. Analysts and policymakers need to recognize the distinction between these two types of activities, monitor the relative predominance of each, and identify policies that promote the former—the creation of new wealth.

The institutional change perspective emphasizes path dependence, or the dependence of current events on prior institutions and developments. Legacies from pre-communist and communist pasts, as well as the ways communist economic and political control unraveled, vary widely in different parts of Central and Eastern Europe and the New Independent States. These differing contexts—ranging from official economic policies to the strategies of individual firms, social and ethnic groups, and households—powerfully affect the character of the changes now under way. Path dependence highlights the fact that historical legacies are not simply deadweight obstacles to change, but also (1) constraints on what can happen next; (2) resources on which people inevitably draw as they create political and economic change; and (3) important models that affect what people regard as possible, acceptable, and desirable.

The institutional change perspective alerts researchers to the possible effects of the perspectives, values, and identities of different social and ethnic groups on their responses to changes in economic conditions. As North notes in his framework essay for this volume, economic change draws on (and is bounded by) existing stocks of knowledge. A “stock of knowledge” is not an objective entity divorced from context. The views of any group’s members concerning valid or relevant knowledge will be filtered through their ideas of who they are, whom they wish to resemble, and how the world works. Romanian villagers, for example, will hold views of “property rights” that differ fundamentally from those generally accepted in Western capitalist countries, and these perceptions will shape the villagers’ responses to changes in formal laws and government policies. The values and understandings of different groups are partly legacies from pre-communist and communist pasts. Like other legacies, they evolve, sometimes in direct reaction against other aspects of the past (for example, the current intense cynicism about political parties throughout the region is a result of prior experience with communist parties), and sometimes in response to new ideas, information, and opportunities. A key feature of the transformation has been the abrupt and dramatic increase in exposure to such new ideas as a result of increased exposure to foreign contacts and influences. Both gaining insight into existing cultural frames and monitoring how they are changing will be crucial for understanding the transformation process.

The institutional change perspective calls attention to formal institutions and informal norms and conventions and the coherence or conflict between the two. Lack of coherence between formal and informal institutions gives rise to widespread noncompliant behaviors, including corruption and the formation of underground economies. These behaviors operate at all levels of social life; identifying and understanding them is a requisite for explaining what is going on in changing economies. Networks are emerging to fill institutional lacunae. Just as networks of politicians and entrepreneurs are shaping the way enterprises respond to changing economic conditions and government regulations, networks of friends and relatives provide an important mechanism for households coping with the costs of economic restructuring. Networks in finance and ownership are also playing crucial roles in evolving and increasingly entrenched patterns of corruption and criminal activity.

Few analysts have made serious attempts to utilize an institutional change framework or to apply the insights of the new institutional economics to transforming economies. Although the potential rewards may seem self-evident, efforts to measure transactions costs or to determine the extent to which property rights have become secure confront a complex situation. Much of the wealth being redistributed or privatized was, and remains, outside any pricing system (e.g., privileges associated with *nomenklatura* status, access to opportunities for rent-seeking behavior), or was seriously mispriced (e.g., housing, utilities, health care). Assets are changing hands, or not, on the basis of insider networks; wealth is being shifted between economic sectors (e.g., from the military to the civilian); the previously underground economy is frequently becoming part of the official economy (but sometimes not); and criminal enterprises and corruption are filling the interstices left by inadequate institutional development.

Transformation is not a closely managed process. Many of its features are inchoate and unstable and operate out of control. At the same time, in some changing economies, different levels of government are making conflicting attempts to regulate critical aspects of transformation, sometimes interfering with efforts to establish a predictable fiscal and regulatory environment. As if this were not sufficient, none of the economies of Central and Eastern Europe and the New Independent States are developing in isolation: foreign investment, debt, capital flight, trade opportunities, and exchange rate instability all affect their monetary and fiscal policies, gross domestic product, and standards of living.

Despite the difficulties of observation and measurement in rapidly evolving and often chaotic circumstances, the enhanced understanding to be gained from research that analyzes dynamic tensions in institutional change and relationships between the redistribution and creation of wealth in transforming economies clearly makes the effort worthwhile. Such research should:

- Examine the relationship between formal and informal institutions, and determine the causes and consequences of various noncompliant behaviors and their manifestation in various underground economies.
- Specify how selected institutional changes alter incentives for productive, protective, and predatory behaviors.
- Examine how selected institutional changes influence the efficiency and equity of the institutions' operation.
- Explore the interaction between selected institutional changes and behavioral responses that result. Do those responses facilitate or raise obstacles to intended outcomes, encourage or block related policy interventions, or reduce or increase the tension between reformed and entrenched aspects of the system?
- Identify the dynamic feedback between selected changes and the behavioral responses of economic actors, and thereby the likely effects of the changes on the creation and redistribution of wealth.

As noted earlier, a wide range of research methods and techniques will prove useful in improving understanding of the processes of transformation. The task force wishes to emphasize the potential value of longitudinal panel studies. Such studies are especially useful for tracing trends and revealing emerging patterns of behavior and outcomes at the micro level, that is, within households, among particular social and ethnic groups, and within enterprises. With respect to households, cross-sectional time series and longitudinal studies would assist tremendously in identifying trends and patterns in family formation, fertility, migration, employment, and welfare. Panel studies such as the Russian Longitudinal Monitoring Survey and annual surveys being carried out in Central and Eastern Europe, particularly those conducted under the Luxembourg Income Survey, represent unique data sources that should be supported and expanded.

PRIORITY RESEARCH AREAS

The task force focused its attention on four key components of political, economic, and social systems:

- Institutional change, property rights, and corruption
- Management, labor, and production
- Social trends, household behavior, and social-sector policies
- The changing role of the state

While these four areas do not exhaust the possibilities, they should nevertheless appear on any list of major issues involved in the transformation process. In theory, it would be desirable to shorten the list or identify a very small number of questions whose answers would, by themselves, generate major

advances in explaining economic and political change. For the moment, however, the complexities and interdependencies are understood with greater clarity than the crucial nodes; to narrow the focus greatly now would surely exclude important analytic opportunities that will emerge as inquiry unfolds, relevant theory strengthens, and empirical verification proceeds. With this broad perspective in mind, the following subsections outline high-priority issues in each of the above four areas and pose some specific research questions that might be addressed in examining these issues.

Institutional Change, Property Rights, and Corruption

What kinds of institutional infrastructure (legal, financial, and administrative) are needed to support private ownership, free market exchange, investment, and economic growth? To what extent are different kinds of institutional infrastructure emerging? What are the likely consequences of extending ownership and exchange rights to land and housing? How and why are forms of property changing in post-communist economies? How much do current conditions and trends vary from one part of Eurasia to another? What explains the variation? What are the major types of underground activities in transition economies? How can their size be measured and their causes and consequences be determined?

There is abundant evidence that property rights are changing in former areas of state socialism, with deliberate programs of privatization accounting for only some of the change, and often having consequences other than widespread property holding and investment by members of the general population. There is also good reason to believe that the sorts of property rights that emerge in Central and Eastern Europe and the New Independent States will (1) differ in important ways from the forms of property currently prevailing in Western Europe and North America, (2) significantly influence future economic organization and productivity, and (3) have a strong impact on future political institutions. We recommend a program of comparative research going well beyond idealized models of socialist and capitalist property rights, or of public and private property, to document and explain actual changes in property. The following are some specific research questions that might be addressed:

- What determines the allocation of human effort among productive, protective, and predatory activities? How can the resources devoted to each type of activity be measured, and the consequences of each for economic, political, and social development be determined?
- What new property regimes are emerging from the “social ownership” of the communist period? What residual *de facto* rights are being preserved from the earlier system? How do prior differences in communist property

regimes affect emerging differences in the timing, location, and forms of property relations (e.g., the mix of “public” and “private,” the pace of privatization, and the emergence of exclusive ownership as opposed to overlapping use rights)? How do these differences affect transaction costs?

- How are use rights, income rights, and alienation rights to property assigned and enforced? What governance institutions are available to create incentives when these rights are separated and redistributed?
- What attitudes concerning property and ownership affect the rise of new property regimes? What do different groups of people think “property” means?
- How are relationships between property rights and citizenship rights developing? Why? What implications do these changes have for political stability (particularly in connection with ethnic/national questions)? In countries such as Latvia where citizenship is a prerequisite for property ownership, but some ethno-national groups do not have access to citizenship, what political consequences ensue? What have been the effects of Western pressures to reduce such discrimination?
- How can informal or underground economies be distinguished and their size and growth measured? How do various kinds of underground economic activity affect efficiency, equity, and stability?
- What conditions promote or inhibit rent seeking and corruption in post-communist economies? How can corruption and rent seeking be measured and monitored? What consequences do they have for economic change, human welfare, and inequality?
- What conditions promote organized crime, and how can it be measured and monitored? In what ways is it intertwined with “legitimate” economic activities, and with what effects?
- To what extent are underground activities reflected in the observed increased use of cocirculating currencies, such as the dollar and D-mark, and can observation of these monetary flows be used as an indicator of corruption, organized crime, and capital flight?
- How have different land tenure patterns and ownership rights affected productivity in different transitional economies?

Management, Labor, and Production

To what extent is a private, nonstate production sector emerging in transitional economies? What institutional infrastructure is needed to support the development of nonstate producers? What government policies impede or foster the growth of a private sector? To what extent is the structure of production adjusting to consumer demand and international integration? What institutional deficiencies or barriers impede economic adjustment and integration into the world market?

Eastern Europe, Russia, and the New Independent States have accomplished an impressive transformation, privatizing a large share of production, liberalizing domestic markets, and liberalizing commercial relationships with the world market. At the end of 1995, 14 of the transition economies had, indeed, rekindled economic growth.

However, recovery in some of the largest transitional economies—Russia, the Ukraine, and Kazakhstan—appears to be in serious jeopardy. They face the task of building new state structures that can fulfill the essential functions of government and create the environment needed to support a healthy, prospering economy. However, the international community and international investors are uncertain whether the fragile new institutions of these countries are up to the task. In Russia in particular, missing institutions and harmful policies impede investment and the entry of new small firms. The lack of ownership rights to land blocks agricultural reform and retards construction of housing. At the same time, a confiscatory tax and regulatory environment, in conjunction with increasing crime and corruption, impedes the establishment of new private firms.

The following are some of the specific research questions that relate to institutional change with respect to the productive and financial sectors:

- To what extent are the transition economies creating well-functioning private sectors in agriculture, industry, and services? What factors impede the emergence of new private producers?
- What institutional arrangements are important in providing frameworks for production and investment in Western market economies? To what extent are similar institutional frameworks available to producers in the transitional economies? What are the consequences of missing infrastructure? What, if anything, can producers do when financial, legal, or administrative infrastructure is missing or dysfunctional?
- How do differences among various forms of privatization (employee buyouts, managerial/nomenklatura buyouts, mass privatization, auctions, and negotiated tenders) affect enterprise organization, performance, and productivity?
- How does the availability of legal, financial, and administrative infrastructure influence the form of enterprise governance and the scale of firms? How does it affect the supply of investment and domestic and foreign investors' perception of risk?
- What policies and mechanisms (such as prudential regulation and introduction of international accounting standards) are necessary to support well-functioning financial markets? What institutional changes are needed to allow financial institutions to bring savers and investors together in well-functioning financial markets?
- Are the institutional changes being introduced in stock exchanges and other mechanisms for financial mediation creating more transparent and ac-

countable regulatory frameworks, or entrenching old networks or bureaucracies in a new guise? What incentive structures are creating and reinforcing these developments?

- What changes are required to provide rule of law and enforcement of contracts? What changes are needed to bring regulation into conformity with legislation?
- What factors lead to the persistence of soft budget constraints in some transitional economies? What are the consequences of such constraints for government stabilization and structural change in the economy?
- What factors impede the movement of labor from areas of low demand to areas of potential growth? What institutions or policies would encourage greater labor mobility and mitigate its costs? What major factors other than geographic immobility impede improved labor productivity?
- How do the institutions of the international market impact domestic institution building? To what extent have the liberalization of international trade and consequent international competition induced changes in domestic institutional infrastructures?

Social Trends, Household Behavior, and Social-Sector Policies

What institutional changes are taking place at the household level? What is happening to household assets, such as ownership of land, housing, savings, and work-related skills? To what extent, where, and how are current economic and political transformations aggravating poverty, inequality, and insecurity? How are households coping with new economic pressures and the erosion of state services and assistance? Which populations are the most vulnerable, and does this change over the course of transformation? How and why are social transfers and delivery of social services changing, and with what consequences for (1) welfare, (2) economic transformation, and (3) political processes?

Growing evidence suggests that since 1989, Central and Eastern Europe and the New Independent States have experienced considerable—in some cases dramatic—increases in poverty and inequality, substantial declines in health and life expectancy, and alterations in patterns of ownership and employment. At the same time, real expenditures on education, health, pensions, and other social assistance have declined, at least temporarily. Fundamental reorganizations of social-sector programs are being debated or (in a few cases) are under way. These trends have far-reaching and as yet poorly understood implications for welfare, economic growth, and political evolution.

Some specific questions that might be addressed by research in this area are as follows:

- What are the dynamics of impoverishment? How can it be determined whether what is occurring is a short-term by-product of transformation or the beginnings of long-term social inequality?
- Studies to date indicate that transformation has had particularly severe effects on children in both large and single-earner households, though important variations exist among countries and subregions in this regard. Especially in Russia and other countries where the impact has been acute, how can effects on these and other vulnerable populations be better monitored and analyzed? What are the relevant trends in child poverty in those post-communist countries which have experienced several years of economic growth, such as Poland?
- Who are the long-term unemployed? How and why does their composition by age, gender, ethnicity, education, and employment sector vary within and among countries?
- What patterns are emerging in the distribution of inequality by gender, age, and ethnicity? Why? Is a “feminization” or an “ethnicization” of poverty taking place?
- How do objective indicators of income and expenditures relate to subjective perceptions of current and future well-being, as well as future prospects, as measured by opinion surveys and focus groups?
- Do different social, generational, and ethnic groups or different genders have differing attitudes toward changes in property ownership and increased inequality? What aspects of inequality—differences in income, wealth, opportunity, security, political influence, or prestige—most concern these groups, and why? What implications do these attitudes have for policy?
- What substitutes are emerging for publicly provided social safety nets? How are households, women, extended families, and ethnic groups coping with the burden of welfare functions previously provided by the socialist state? What bases for forming social support networks (kinship, community, occupation) are emerging, and do they vary significantly by country? How well do they work?
- What are the scope and characteristics of growing private-sector (profit and nonprofit) education and health service facilities?
- How are localities coping with the erosion/collapse of old social service delivery institutions? What are the evolving roles of local governments, nongovernmental organizations, and private services? What are the major factors influencing local responses?
- In view of fiscal constraints (including the need to contain or reduce overall social expenditures in some Eastern European countries and weak revenue capabilities throughout the New Independent States), what strategies are emerging for sustainable and improved services in education, health, and social assistance?

- With regard to the choice between (1) entitlements and (2) varying degrees of individual responsibility for various sorts of services, how are shared understandings evolving among different social and ethnic groups and countries? What implications does that evolution have for public support of future regimes? What impact, if any, have mass privatization programs had on the distribution of wealth? Can further privatization efforts create a private-sector safety net? How would extensions of property rights to land and housing affect income and wealth distributions?

The Changing Role of the State

How are shifts in the scope, personnel, and formal organization of political life affecting property rights, economic organization, household experience, collective goods, and the viability of political regimes? Why, and with what consequences for the future?

Both within post-communist countries and among Western observers, wide disagreements exist concerning the interactions between type of political regime on the one hand and quality of economic performance on the other. The great variety of paths followed by post-communist regimes presents a crucial challenge and an opportunity for researchers to trace causal connections between the two sets of factors. Prospects for democracy, economic growth, and public well-being are at stake.

Specific questions to be addressed include the following:

- How are sharp increases in the concentration of income and wealth at the top end of the distribution affecting political power, and how are these relationships mediated by formal and informal institutional arrangements? What are the emerging patterns of concentration of media control, and what are the implications for the political process? How are election campaigns being financed, and with what consequences?
- To what extent and how are new (or altered old) political and economic interests organizing to press their claims? How are these processes being mediated by formal and informal institutions?
- Do lower voting percentages in the region reflect a lack of internalization of democratic principles within important components of the population? Are there discernible variations by gender or ethnicity? What indicators other than voting would be more appropriate for gauging popular commitment to democratic ideals and processes?
- In those countries where state revenues have severely dwindled or collapsed, what are the major operative factors, and what incentives and capacities must change to restore the state's ability to collect revenues?
- How does a society assure itself of an honest and competent civil service? What institutional changes are required to this end?

- How are the mandates and structures of state organizations changing? What new levels or divisions of government are forming, and which ones are disappearing? How are state organizations presenting their mandates to relevant publics? In what ways, to what extent, and with what deliberate publicity do governmental appeals differ from those of the communist era?
- How are emerging political institutions and practices affected by social and ethno-national conflicts? What are the implications for long-term political stability and the continuity of economic policy? How equally or unequally do emerging political relations engage the energies of and impact areas of concern to different genders and ethno-national groups? What are the consequences for public politics, present and future?
- Are new legal and judicial mechanisms/institutions being successfully institutionalized? What role are they playing in the enforcement of contracts and the resolution of disputes? To what extent are preexisting judicial institutions assisting or impeding economic transformation?
- How do different social and ethnic groups and individuals conceptualize "the political" and their relations to parties, the political process, and the state? How do contending parties recruit, organize, and exert control over their members? To what extent do political parties consist of coalitions among kin, friends, and business associates?
- How much and what kinds of authority and responsibility have been shifted from state-wide to lower levels of government, and what are the implications for economic organization and growth, social policies and programs, and the legitimacy and capacity of all levels of government?
- What institutional changes are required to create stable tax-based government budgets? What is the division of government revenue and expenditure responsibility among central, regional, and local authorities, and what have been the consequences of alternative allocations of responsibility among different levels of government?

PROPOSED RESEARCH PROGRAM

The interdisciplinary study of transformation, comparative analysis, and the fields of post-Soviet and Central and Eastern European studies have experienced vibrant growth, both qualitatively and quantitatively, in the West and the East since 1989. Although the growing body of work on democratization and other comparative aspects of transformation is producing valuable insights on Central and Eastern Europe and the New Independent States for analysts, policymakers, and practitioners, the particularities of the post-communist transformation have yet to be effectively integrated into this literature.

Somewhat paradoxically, after decades of having to search painstakingly for nuggets of information, post-Soviet and Central and Eastern European

analysts are being inundated with data and finding it increasingly difficult to separate the wheat from the chaff. At the same time, a misplaced sense of triumphalism has led government agencies and independent foundations to underestimate the potential contributions of work in these fields and, as a result, to begin shifting their priorities and funding away from this area of the world. This trend, coinciding as it does with widespread retrenchment on university campuses, threatens to erode the financial foundations on which the research infrastructure in both comparative and area studies is based. Most important, it also endangers the replenishment and enrichment of these fields with a new generation of scholars and research analysts.

In producing this research agenda, the task force hopes to focus attention on, and bring some coherence to, the post-communist research enterprise by (1) calling into question the unconsidered assumptions on which much current work is based; (2) highlighting the need for work that is both interdisciplinary and comparative; (3) emphasizing the need to take history, politics, demography, and ethnography into account in both designing and analyzing the course and consequences of economic reforms; and (4) focusing attention on a particularly fruitful conceptual framework—the new institutional economics.

A cohesive research program can not only maximize the utility of increasingly scarce research dollars, but also enable analysts to concentrate on particularly salient aspects of transformation. Such a program can also promote synergy as scholars working in diverse disciplines bring their analytical skills to bear on common problems. Without a substantive and sustained program of research, current policy interventions in post-communist economies will surely fail in some regards and produce unanticipated, and all too frequently undesirable, effects in others. Although improved research cannot guarantee the achievement of particular policy goals, better-informed and more sensitively designed policy interventions stand a far higher chance of success than those which have not benefited from research-based analysis.

It is time for major, theoretically motivated and empirically supported inquiries into the four key research areas explored in this volume: (1) institutional change, property rights, and corruption; (2) transformation of management, labor, and production; (3) social trends, household behavior, and social-sector policies; and (4) the changing role of the state. In all four of these areas, research should be empirically grounded; comparative, seeking to explain both change and variation across Central and Eastern Europe and the New Independent States; and sensitive to ethnic, national, generational, and gender differences. This is not to say that every investigation should deal with every post-communist country, or every nationality, or every age group; on the contrary, as the chapters and essays in this volume show, close examination of changes and their causes in single cases can provide one of the best defenses against schematic reductionism.

The questions outlined in the preceding sections provide the necessary

scaffolding for a major, focused, and cohesive research program. They are not intended to be either all-inclusive or exclusive. The task force believes the best work will be accomplished if the gates are opened as widely as possible to individual researchers, research teams, and research centers to compete for funding under the auspices of the program.

The development of new arrangements for coordinating and encouraging innovative research would substantially further the proposed research agenda. As a first step, the relevant U.S. government departments and agencies (the departments of State and Defense, the Agency for International Development, the National Science Foundation, and the various intelligence agencies) should undertake consultations aimed at coordinating government funding of research related to Central and Eastern Europe and the New Independent States. Institutionalizing channels of communication across departments and agencies having responsibilities in the region should not only assist the research effort, but also broaden the scope of government thinking on this area of the world at a time when new thinking is at a premium. Improved communication and coordination should reduce duplication of effort on the part of both government and researchers while enhancing the capacity to study, analyze, and understand change in a large and increasingly volatile part of the world.

The task force does not presume to dictate the individual components or determine the most appropriate sequencing of this research effort. Practical details concerning the mix of institutions, teams, and individuals to be charged with particular aspects of the work should be developed through consultation both within and among the agencies cited above, and with substantive input from the Kennan Institute for Advanced Russian Studies, the National Council on (Post) Soviet and East European Research, and the Joint Committees of the Social Science Research Council and the American Council of Learned Societies, as well as the leading foundations supporting work in these fields.

One beneficial by-product of the Cold War is the substantial existing infrastructure of research centers devoted to the study of Central and Eastern Europe and the New Independent States. In the United States alone, there are a large number of institutions that merit the appellation of centers of excellence and innovation, from the Berkeley-Stanford program, to the universities of Michigan, Wisconsin, and Indiana in the mid-west, to the Harriman Institute at Columbia and the Russian Research Center at Harvard. The hallmarks of these centers of excellence and innovation are their interest in fostering creative, high-quality work; interdisciplinary research; participation in inter-university and East-West partnerships; and their commitment to training a new generation of scholars and researchers who are equally adept with the most rigorous social science methodologies and the intricacies of area studies.

Opportunities for close collaboration with Eastern European universities have never been as great as they are today. Consortia of Western European universities are developing innovative institutions, such as the International

Center based at the University of Tuebingen, to promote this kind of work. Most significant, serious centers of scholarship are being resurrected in Eastern Europe (for example, Tartu University in Estonia) or newly created (for example, the Central European University in the Czech Republic and Hungary and the University of the Humanities in Moscow). Research that engages the talents and assists in the further training of a new generation of Eastern European social scientists should be particularly encouraged.

The following guidelines can help ensure the success of this proposed research program:

- Funding should be made available in 3- to 5-year increments so that institutions, research teams, and researchers can make the necessary substantial investments of time, energy, and resources.
- Research teams should not only be interdisciplinary but also, whenever possible, include researchers from Central and Eastern Europe and the New Independent States.
- Research projects should be explicitly designed so that, when appropriate, the data produced will be comparable across time and countries.
- Research topics should be proposed by individual investigators and research teams, not set by the institution(s) coordinating the research program.
- All of the research, and the underlying data on which it is based, should be publicly available, be deposited for use by other researchers, and, when possible, be accessible on the World Wide Web.

Observation of the above guidelines will enable researchers to build on each other's work and give policymakers confidence that the results produced are indicative of real socioeconomic trends and processes.

In addition, research conferences should be convened annually under the auspices of one or more of the organizations overseeing the implementation of this research program, such as the Kennan Institute or the National Council on (Post) Soviet and East European Research. These conferences should be focused on critiquing and refining the ongoing research effort. Individual researchers and research teams should be asked to present their results, as well as emerging hypotheses, to their colleagues and practitioners in the field. Such conferences would improve understanding, assist policymakers in obtaining a more up-to-date and nuanced view of developments in the region, and generate new avenues of inquiry. After 5 years, the research program should be revised and refined, preferably after broad consultations involving all major actors in the field, including the lead organization(s) overseeing implementation of the program, allied professional associations, private foundations, and the relevant funding agencies. After the revised program has been accepted by the funding agencies, there should be another round of

proposals and funding, an additional series of conferences, and a further iteration of the research agenda.

Scientific judgment is inherently imprecise, whether one is quantifying the risks associated with nuclear reactors or identifying the effects of imposing stabilization strategies on transforming societies. Reasonable assumptions and widely accepted theories can and have been proven false, and strategies that have succeeded in one set of circumstances may fail in others. Important work needs to be done on the post-communist economies of Central and Eastern Europe and the New Independent States. At present, the processes and mechanisms are poorly understood, theory is deficient, and methodologies are uncertain. The research program outlined here represents a major step toward improving both the analysis and understanding of the political economy of the post-communist transformation.